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MEASURES FOR EFFECTIVE CO-ORDINATION OF DEVELOPMENT ACTIVITIES BETWEEN THE PUBLIC AND PRIVATE SECTORS IN ECONOMIC DEVELOPMENT

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1. BACKGROUND

1.1 Since independence, the African Governments in a relentless effort have striven to achieve an alternative authentically African pattern of economic development. The major pre-occupation and the main objective of the African Governments, in this endeavour, constituted, inter-alia, the rapid development, upgrading and reorientation of the natural resource base to the development of their indigenous economies. The development of natural resources during the colonial era was in many instances erratic and was largely confined to the development of areas and to the extent that only served their exploitation and profit-oriented interests. Most, if not all, of the investment done was on trade and enclave industries.

2. Prior to and even well into independence years, the most profitable and modern undertakings were in the hands of foreign enterprises. With more security for foreign entrepreneurs in colonies, the indigenous private sector was unable to compete. The indigenous private sector was, then, virtually non-existent except in petty trade and agriculture where subsistence is dominant. On the other hand, the public sector was created by necessity. Thus, the development of the public sector was entirely linked to the developmental objectives of the colonial rulers who had taken the first steps towards the creation of public enterprises in Africa such as railways, ports and roads mainly to facilitate the transportation and which was just enough to maintain and provide raw materials at low costs to their home industries.

3. With independence, the governments alone were to face the difficult task of shouldering a rapid economic development drive that is consistent with the resource endowment and the aspiration of its people. The task of filling-in-gaps and in particular of orienting and moulding the private sector activities into the overall economic and social life of the country was tremendous, since the colonizers did not give the necessary support to the indigenous entrepreneurial class to develop by itself. The private sector, by that time, was weak, fragmented and void of clear vision due to the undeveloped infrastructure, and lack of opportunities, capital and the required skills. Lacking the active support of a viable and strong private sector, and in an effort to stabilize and strengthen its political independence with economic independence, the government has to shoulder the responsibilities of development.

4. As a result, besides building the bare infrastructural initial type of investment projects, the government has to undertake those enterprises that are possible but too difficult and unattractive for the private sector. For this reason, most of the import-substitution industries started with the public sector in the manufacturing field. Since then, the public sector expanded and extended into the various productive ventures, leaving the private sector to evolve and develop itself slowly into the less risky ventures in the areas of services and small businesses. At this stage, the emergence and growth of the public sector as a leading and dominant sector to initiate, rationalize and direct the process of economic growth was an inevitable venture.

5. This study, as recommended by the Second session of the Joint Conference of African Planners, Statisticians and Demographers, basically addresses itself to the subtler investigation of the appropriate measures for effective co-ordination of development activities between the public and private sectors and hence to raise issues as to their proper scope and perspective in influencing the course of economic development in African countries. The study falls in 7 sections. Section 2 surveys the envisaged pattern of development under various types of economic philosophies and systems. Section 3 gives details of the mechanism of the legal and institutional set-up of the public sector. Section 4 surveys the merits and demerits of the two sectors in the overall development process of developing countries. Section 5 specifically reflects the actual performance of the two sectors in an African context in a comparative historical analysis with other regions of the world. Section 6 is entirely devoted to the interaction of the public and private sectors at the sectoral level in the light of the nature, size, degree and scope of operation, together with enhancing a desirable level of involvement, the institutional mechanism that would maintain it, and the policy measures that would promote it. The last Section 7 is primarily devoted to indicate and highlight the new opportunities offered and the new challenges faced by adopting an internally-oriented development approach as stipulated by the Monrovia Strategy, the Lagos Plan of Action and the Final Act of Lagos.

2. A CONCEPTUAL OVERVIEW UNDER DIFFERENT TYPES OF ECONOMIC SYSTEM

6. The pertinent question which remains and the one leading to considerable and lengthy discussions is how to determine the most desirable structure for a society on the light of the need to institutionalize changes in the economy in terms of the transfer of technology and efficiency in developing natural resources and innovations. Is it the private or the public sector that will increase the economic efficiency and hence the economic and social welfare of the people more rapidly and more efficiently?

Is it that the generation and mobilization of savings and hence of investment will grow more faster under a system of private enterprise? Or, alternatively is it that a private enterprise system is by its own nature more wasteful of resources as it behaves 'anti-socially', and that the mobilization of savings and deployment of investment resulting hencefrom will be more soundly and economically employed by the State?

7. In its ideological setting, the question of the type of enterprise to be preferred and thus to be expanded is still a subject of controversy. In a typical industrialized capitalist country the private sector is dominant and the role of the public sector is quite marginal, serving only to impose regulatory checks and balances on the operation of the market. With this system, the public sector is strictly prohibited to enter into ventures where it would compete with private enterprises, even in public utilities if the private sector has an advantage. A large number of basic services such as the provision of education and medical services are usually provided by the private sector. Nevertheless, within this group where the role of the private sector is prominent, considerable variations in the size of operation of the public sector is quite apparent within countries, but still keeping an image of the capitalist society. Typically, they covered industries which are natural monopolies, public services, or areas where substantial economic externalities are desirable. The provision of such utilities is justified on the ground that they are natural monopolies and can best be served by a single authority on a national scale such as the provision of electricity, railways, and postal and telecommunication services, as well as the provision of services by local authorities whose continuance is considered to be a national interest such as water supplies, sanitation facilities, and street lighting, etc.

8. Within the capitalistic framework, the system develops its own devices, mechanism and corrective measures to coup with changes and economic phenomena arising from trade and business cycles and disturbances inherent in the nature of the system itself. In this adjustment process, basically two schools of thoughts have emerged, namely the Neoclassical and the Keynesian models, with respect to the role of the State to restore and stabilize the conditions for equilibrium. While the Neo-classical school of thought emphasized the dominance of the private sector to regulate the economy through the market forces, the Keynesian model assigned primary consideration to the role of the State in managing the economic affairs.

9. The application of such models within the capitalistic framework is, however, governed and dictated by the nature of the prevailing economic circumstances. In the great depression of the 1930th, which inflicted the majority of industrialised countries, the Keynesian model, where the intervention of the State in the economic affairs is assigned a prominent role, found ever increasing avenues of application. Expanded public expenditure programmes were devised to influence the effective demand and hence to affect increases in the general level of employment. This expansion of public sector might in many cases bring in enlargement of public enterprises. However, in some cases such expansion is sometimes limited only to increases in public administration services. On instances of the presence of inflationary tendencies, the government operational mechanism is reduced to only directive mechanism and the main policies to bring about economic stability, in this respect, would constitute the manipulation of monetary instruments affecting such variables as the rate of interest, and credit creation, etc.

10. The centrally planned economies are almost exclusively based on the public sector. In this system, the public sector enjoys tremendous autonomous decision-making power. The main features of the private sector have been more or less abolished except perhaps in agriculture and in small business enterprises employing a few number of workers. Areas of interaction are strictly delimited. However, some degree of flexibility is there which combine self-management of collective ownership and State control. The co-operative was a favorite form of this type of organization with some autonomy in policy decisions. The co-operatives are under the self-management of their worker-members who are also collectively the owners of the enterprise though they can not withdraw their shares individually.

11. Mixed economies raise problems of a different character. Their economic development strategy takes the attributes of the two widely known economic systems where both public and private sectors act together. The countries belonging to this group have considerable public ownership of a varying number of industrial enterprises which are either directly or indirectly in competition with private enterprises. Most of the activities of the public sector, besides natural monopolies and basic services, consists largely of the provision of basic strategic commodities which include coal, iron and steel, engineering, oil refineries and heavy chemicals, etc.

12. In Third World Countries, planning and programming economic development is a common practice taking various forms and ranging from indicative to comprehensive planning depending in many countries on the philosophical orientation to economic development. Within this group, public enterprises play a crucial role as instruments to promote equity and growth. In the two extremes of highly developed capitalist and completely centralized planning systems, capital formation was left entirely either to the private sector or to the public sector. Due to their special circumstances, most of the developing countries, with the exception of some have developed, on the main, a mixed economy strategy, more often than not, with a leading public sector as planning in these countries is set and geared towards a non-monolithic direction.

3. THE MAIN INSTITUTIONAL FEATURES

13. However, most of the arguments about the forms that the public and the private sectors should take revolve around the degree of centralization and the degree of flexibility within the entire system of economic organization. In most developing countries, centralization ranges from what seemed as excessive central control of government departments and units to an independent decision-making organ under government patronage. Organisations which are concerned about commercial performance and efficiency tend to swing from some degree of centralization to some degree of decentralization in decision-making as different controls are necessary for different classes of activity. At any rate, different forms of mixture exhibit themselves within the broader extreme limits. This, however, raises a number of issues about the difficulty of classifying public sector forms.

14. The public sector is generally characterized under three basic legal forms:

(1) The government department/unit;

(2) Public corporations;

(3) State companies.

15. A normal government department is financed from taxation and is headed by a minister who is usually fully responsible for its operation. The statutory corporation is usually established and set-up under its own law with responsibilities directly imposed upon it by the legislator. A statutory corporation may be endowed by its own responsibilities separate from those of the minister. This would appear to give it some autonomy, but in cases where the board of directors

is appointed by the minister, the minister or the ministry will have powers of formal direction. The State Company is usually established under the Companies' Act of the country concerned. The position of the parastatal is similar. At one end of the scale, it may be effectively independent with little government intervention or under strict government control particularly in cases where the minister or one of his representatives is chairing the board of directors.

16. However, whatever the legal form or entity, government control and responsibilities is exercised in various forms depending on its philosophy of economic development. In this context, the structure of organization appears to be dependent on the size of the public sector. Whereas countries of the centrally planned economies have made their sectoral organization dependent on sectoral ministers, other countries of different economic practices have made them dependent on central holding companies and/or development agencies.

17. Some of the statutory boards do enjoy monopolistic rights due to the nature of their services, such as pbulic utility boards, the telecommunication and Port authorities, etc. These types of monopoly are also common in capitalist countries due to economies of scale and national prestige such as the operation of airlines, etc. It is common with many countries that most of the statutory boards are accorded with some kind of preferential treatment such as priority in obtaining raw materials, fuel and other supplies essential to their operation. Most of them receive benefits in various forms of tax exemptions, concessionary loans, subsidies and other forms of financial assistance from the national budget.

18. On the other hand, the State companies are run strictly on commercial basis and operate in areas of well established business practices. In such type of organization the government acts as a businessman. Expenditure pattern of these companies will be dependent on market fluctuation with consumer demand and as such does not depend on taxes. However in many countries such characteristics depend upon the particular line of the activity of the firm, its role within the economy, and the volume of investment. Moreover, it is a general understanding that since parastatal of such nature should perform within the pattern of public interest which the government usually dictates, the executive are generally vested with powers to issue directives especially in cases where there is much concern of public accountability. However, in many of these cases, the State participation is carried out through an agency or development board which helps to give the public enterprise the necessary autonomy required for sound and efficient operation.

19. Another feature where the public sector often operates is the mixed firm where both the State and private capital participate, with the understanding that the firm will operate just like any commercial undertaking seeking to maximize profits. Within this framework of joint venture, the State participates actively in production and promotion by providing financial, industrial security, support to private capital and greater bargaining power, while the participation of private capital would ensure efficient operation through entrepreneurial ability and management independent of political interferences. In cases where investment and large-scale operations require technology of a complex nature or/and provision of critical inputs and supplies of foreign origin, the structure of the mixed firm is extended to permit foreign capital in a three-way participation, where foreign capital would contribute to transfer of technology at a minimum cost, regularize the supply of critical inputs, and facilitate access to international commodity and financial markets.

20. It is worth mentioning, however, that the variety and over-lapping of forms is of less significance as expediency and convenience other than principles may constitute practical reasons for adopting one form than another. The range of variation which relates to public accountability and central control versus devolution, rather than the form by itself, is of more analytical importance.

3. THE CASE FOR THE PUBLIC AND PRIVATE SECTOR IN DEVELOPING COUNTRIES

21. In the African countries as well as in many developing countries the predominance of public enterprises have usually to be justified on specific pragmatic grounds rather than ideological ones. The developing African countries have peculiar problems of their own. The development of these economies are largely constrained by dominance of a large subsistence sector, undeveloped infrastructure, small and fractured industrial sector due to small size of domestic markets owing to inelastic demand at low levels of purchasing power, lack of local entrepreneurial capabilities and skills and above all lack of capital and capital markets to bring together capital and ideas. Therefore, the distribution of the country's resources will be more developmental if organised by the government than left to private sector guided by market forces.

22. The theory which suggests that the profit criteria secures and ensures the best allocation of resources is only applicable under highly improbable and unrealistic assumption of perfect competition. Such assumption totally ignores the criteria of social profitability whose benefits extend to the whole economic community at large. The social profitability does not only take account of the profits that would accrue to investors but also the addition of other types of income that would

be generated by the new investment, such as increases in the volume of employment and its multiplier effects. Indeed, investment by public sector, unlike profit-motivated private investment with independent decisions, tend to take the comprehensive effects of all investment into account in judging the social profitability of any particular investment project. For this reasons the establishment and expansion of productive capacity in the public sector in some industries has been given due emphasis on the development plans of many mixed economies. At the same time, the State plan guided by the public sector investment gives the necessary guidance and direction to private investment.

23. This, however, should not exclude the postulate that public enterprises are expected to make financial profits and therefore should not depend on government subsidies and finance alone. Nevertheless, it is common that these profits are, on the main, lower than those of comparable private enterprises which claim a higher risk premium for investment in some industries than would otherise be socially acceptable in the case of the public sector. The main reason for lower profits is that the public enterprises are required by the government to meet other objectives than is mainly profit such as the location and spread of new industries in economically depressed areas, the purchase of inputs from financially troubled public companies, the stabilization of the cost of living by the practice of valuation of output below production costs, etc. It has been argued, in many instances, without unjustification, that the operation of private enterprises, if left to themselves without proper control, would lead to increasing inflationary pressures, unemployment, balance of payment deficits and social inequalities. In some African countries, there is historical evidences as to the lack of adaptability of private capital to the needs of economic and social development of these countries.

24. Evidence has also shown that public enterprises in development planning takes a longer-term perspective than private enterprises. The reason for this being that the State capacity is in a better and a stronger position to invest in risky ventures and to set up pilot enterprises in areas where private capital is not forthcoming. Moreover, the scale of investment in heavy industries may be beyond the capital raising capacity of the private sector.

25. There is a commonly held belief that the public enterprises are relatively less efficient than the private sector, and therefore have a lower capacity to generate economic surplus to contribute to capital accumulation. However, this has been contested on the ground that distributed profits are greater in private firms than with public enterprises which curb the surplus available for reinvestment. On the other hand, the profits generated by public firms are generally available for reinvestment instead of being partially distributed as dividends for partial consumption and thus

contributing to capital formation to a greater degree than private enterprises do. Furthermore, the public sector is likely to do this in a more consistent manner and thus making for steadier growth as these surpluses will be allocated on the basis of overall objectives rather than confine them to the expansion of the industry that generates them. This, indeed, will help in providing funds for new and possibly innovative activities.

26. It is also believed that public enterprises, as a regulating instrument, can promote growth and equity in developing economies in a more effective fashion. The increased involvement of the public sector in promoting key strategic activities, and initiating new wave of applications in the infrastructure has been seen, not only as a positive contributor, but as a catalyst for the overall process of development. Through production and distribution of crucial basic inputs, the State will be in a stronger position to develop, lead and direct the private sector to profitable ventures in the public interest. Moreover, the public sector has the ability to ensure and promote a more equitable income distribution through its employment and wage policy which is directed to benefit disadvantaged groups in the society. Unemployment, which is a wastage of resources with an adverse effect on demand situation, was the main justification of government participation and intervention.

27. It is generally known that the public sector could afford to take risks which private investors refuse and therefore can act as a monopoly in markets where competition would be wasteful. In cases of monopolistic practices in physically limited markets, it is thought desirable and more economically convenient that monopoly should be in the hands of public firms so that its restrictive practices may be made to the benefit of the whole society. Furthermore, the positive involvement of the public sector in direct monopolistic competition with privat sector, will tend to curb the unhealthy spread of such type of markets. Besides limiting the monopolistic positions of private enterprises, this policy will enhance the capability of the public sector to compete with transnational corporations under more favourable conditions of industrial competitive capacity than domestic private enterprises. In this context, it can encounter and limit the power of domestic and foreign private capital more effectively.

28. It is also believed that the public sector could negotiate the transfer of technology more successfully than the private sector. Indeed, the public sector has the capability and the means to expedite and shorten the process of technology transfer. From the national point of view, technology transfer would not be a profitable venture if not accompanied by proper plans for its adaptation and modification to suit the local conditions. It would only lead to attendant increases in costs in

terms of capital consumption and imports, and general reduction in the employment-generating capacity. In both cases, the public sector is better equipped than the private sector to acquire it at a low direct cost as well as at a low indirect social cost through its greater bargaining power, specialization through the agency set up for such purposes, and the government influence in international spheres.

29. One of the advantages of the public sector is that industrial decentralization, to the effect of developing backward areas can undoubtedly be promoted more effectively through public enterprises. Although the advantages of industrial concentration are attributed to the large economies of scale, yet the continuous expansion of industrial centres in the long-run would eventually lead to undesirable and formidable social and economic problems. The government resort to decentralization policies in an effort to affect regional balances by developing local technological capabilities, and generating sufficient income and employment in the rural sector to reduce rural-urban disparities and to mitigate rural-urban migration. Decentralization can, then, only be induced by initiation of a series of stimulating actions. In this regard, public enterprises can act as a catalyst and a promoting agent in such a process. Indeed, the public sector would take the leading and predominant role in promoting those activities which are assigned as top priority areas, especially those activities and areas where the expected rate of return on capital is unusually low or uncertain and fiscal and monetary incentives to the private sector are ineffective to produce the desired results.

30. There is no yardstick or specific measure to evaluate the success and failures of the public sector. First of all, it should be recognized that the entities of the public sector are not all a homogeneous group in terms of their objectives, functions, organizations, control and a whole set of other issues relating to the rationale behind their formation. To measure whether the statutory boards are fulfilling their major objectives is not in many ways meaningful, as each could be judged and evaluated against specific criteria unique to itself. On the other side, it may be logical to measure the performance of government commercial companies, as they compete with the private sector, by applying commercial yardstick such as profits or returns to capital. With this measure, there are many arguments advocated against the public companies and in favour of the growth of the private sector.

31. The strongest argument in favour of the development of the private enterprise is that it is generally better managed and technically more efficient than public enterprises. Notwithstanding, the evidence concerning the relative efficiency of

public sector varies according to country, period, and the particular criteria chosen. In countries which are less developed economically and less mature politically, it was argued that public enterprises are inferior in terms of efficiency of operation, and technical dynamism. In developing countries suffering from chronic and acute economic problems and soaring inflation, the State enterprises more often than not, become the recipient of massive open-ended subsidies and a drain on public funds rather than being important contributors to the State revenues.

32. Large accumulated financial losses, the creation of high-cost enterprises, and underutilization of capacities which become symptoms of public enterprises in developing countries, were partly attributed to the restrictions imposed upon it such as the regulation designed to maintain certain price level and volume of employment which would drastically reduce their surplus generating capacity even though it operates at the same level of efficiency of private firms. Besides these constraints, which are the most widespread, the State imposes others which also inhibit capital formation, such as the requirement that the firm continue production of financially unprofitable goods for the social benefit.

33. The case against public enterprises is stronger on efficiency grounds where considerations other than fitness, ability and competence for a job may play an important role in appointments for the top posts in State-owned enterprises. Such appointments may be decided as a matter of political patronage in the same way as the top posts in government services. In general, privately run firms involve less bureaucracy and have a better quality of management than public enterprises.

34. It is generally believed that private enterprises are better able to resist excessive wage demands by workers, while in State enterprises they are sometimes subsidized at the expense of investment. In the private firms, labour union demands in the long-run leads to a reasonable degree of equilibrium in collective bargaining. In contrast, the management of the public firm is answerable primarily to the government and cannot, therefore, easily check workers' demand. There are numerous instances where labour disputes lead to closure of successful public enterprises and caused others to lose competitiveness. This situation is aggravated when managers must serve the requirements of political expediency.

35. Corruption is another factor which occasionally makes public enterprises less productive than private enterprises. Although corruption does not occur exclusively in public enterprises, the opportunities are greater. In many cases corruption would reach such extremes that it may completely offset the advantages of public enterprises in economic efficiency and capital formation.

36. It was argued that a feasible alternative to public enterprises in cases of promotion of growth and equity is the development of a sound and efficient private sector. It was maintained that growth can be sustained by the regulation and manipulation of the private sector through tariff protection, exchange controls, subsidies in crucial areas such as education, health, transportation, energy and agricultural infrastructure and regulation and rationalization of foreign investment. It was also argued that improvement in equity and income distribution might also be achieved through progressive taxation and redistribution, rather than through expanded public employment programmes.

37. Nevertheless, there are clear advantages of public enterprises in developing countries. While the disadvantages of public enterprises were similar to those of private enterprises, public enterprises have an extra advantage and that is the social benefits it generates in the society. It is, therefore, important for governments, to a reasonable degree, to relax the excessive restrictions and limitations on the public sector which hinders its efficient and profitable operation and thus avoid reducing its capacity to generate surpluses for capital formation and fulfil the goals set for it. In other words, public enterprises should to a certain degree be in a state of independence having the right of entry and exit in case of noted failures under the guidance of the government and the role of the State should be confined to that of defining the general objectives which embrace the realization of the social goals and social justice. It is, therefore, desirable to redefine the general objectives in a clear manner and to distinguish between the government per se and public enterprises.

38. This, however, has to be done together with the development of an efficient and strong private sector capable of supplementing the efforts of the public sector within a framework serving the general national interest. The government should ensure through its incentive schemes, control and regulatory devices that the private sector would maintain a satisfactory internal and international competitiveness that would guarantee its survival as a useful social and economic instrument in the process of economic and social development of the country.

4. COMPARATIVE HISTORICAL ANALYSIS OF THE PERFORMANCE OF THE PUBLIC AND PRIVATE SECTORS

39. There is a general shortage of basic data as to the size or to how the two sectors are related. As a result, the relative role and impact of the two sectors on macro-economic development can not be adequately studied in a systematic manner. A clear perception is, therefore, needed if the problem of economic growth in developing countries is to be studied in its basic institutions of development.

40. To attain national development goals and objectives, the direct and indirect intervention of the State in the co-ordination of activities of the public and private sectors in the framework of national interest is of vital importance. This would, of course, require gathering of comprehensive information on the roles of each in order to plan and to monitor their activities and progress so as to effect the proper transfer of technology and capital. In this respect, there is, however, some statistical information on the shares of public sector in gross fixed capital formation and output which gives some indication to the level of interaction of the two sectors, and the specific areas of operation and performance, but unfortunately does not show areas of joint ventures and the degree of foreign dependence.

41. The evaluation of the statistical data reveals the relative advantage of public and private sectors in such types of mixed economies of the Third World. The percentage share of gross fixed capital formation of public enterprises in Africa was found to be one of the highest among all other regions of the world. The average percentage share of capital invested in public enterprises accounted for 32.4 per cent of gross fixed capital formation during 1976-77, as compared to only 11.1 per cent and 27 per cent for industrial economies and for all developing countries respectively during the same period. Of all the regions, it is only the Asian region which shows some similarity to the African pattern of investment distribution and whose average comes close to 30 per cent, while that of other developing countries of the western hemisphere was only 23.5 per cent. This is not unexpected in the case of the African region since, in the early years of independence, the share of government investment in the total economy has been quite significant, a policy often taken to reduce foreign dominance of ownership of industry.

42. The average share of public enterprises' investment in the African region conceals wide disparities among countries, it ranges from 7.7 per cent in 1978-1979 for Botswana to 67.6 per cent in 1978-81 for Algeria. 1/ The statistical data indicates that

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1/ It should be noted, however, that such comparisons may be of less significance due to differences in coverage, especially when made between individual countries, yet the overall broad trends may serve as a rough but useful indicator.

public enterprises are gaining prominence and are now of major quantitative significance in the African region. In all cases, the percentage share of public enterprises in gross fixed capital formation has shown marked acceleration over the years even in countries with traditionally strong private sector. In Ivory Coast, the investment of public enterprises had increased by more than two-fold between 1965 and 1979. In Tunisia, it has risen from 25.2 per cent in 1969 to 44.6 per cent in 1978-79. With other countries, shifts in public investment has been moderated. In Malawi, the share of investment of public enterprises rose from 20.2 per cent in 1969 to 28.1 per cent during 1974-77 but fell again to 21.2 per cent in 1978. Similarly, the share of investment of public enterprises in Kenya was moderating during the 1970's to increase only by 4.2 percentage points over the ten years.

43. The reasons behind such acceleration are attributed to numerous factors. Most notable among them are the political and structural factors, decolonization policies, socialist policies, and the general desire for improving the distribution of income and stabilization especially of prices and employment. Another factor behind the growth of public enterprises in some African countries is the huge accumulation of surpluses arising from the public monopolies of some strategic commodities. In oil-exporting countries and countries with a strong mineral base investment of public enterprises have expanded faster in the last fifteen years. In Algeria, the percentage share of investment of public enterprises has significantly increased from 5.5 per cent in 1965 to 67.6 per cent in 1978-81. Similarly, in Zambia, the share has risen from 49.7 per cent in 1972 to 61.2 per cent in 1979-80.

44. Again, the African region has noticeably a large share of the gross domestic product being generated by public enterprises. The efficiency of the public capital employed is reflected in the high percentage of the income generation of 17.5 per cent of GDP, as compared to 8.6 per cent for all developing countries. Most striking is the comparison with the Asian region where a share of 27.7 per cent of the total stock being invested in public enterprises with only 8 per cent of total GDP being actually produced.

45. The available data clearly shows that the sectoral distribution of public enterprises tends to concentrate in the manufacturing sector. In Tunisia, about 58.8 per cent of the total investment in the manufacturing sector is public investment with only 18.3 per cent in agriculture during 1978-1981. Similarly, in Benin, the share of public investment in the manufacturing sector was estimated at 57.4 per cent in 1978-1979. In Ethiopia, public enterprises were responsible for 60.9 per cent of the total income generation in the manufacturing sector.

46. Public enterprises generally dominate the modern manufacturing sector in Africa and the private sector is largely confined to small-scale industries in food, beverages, textile, footwear and leather work etc. However, there are wide variations among countries but the general trend with most of them is that the public enterprises are engaged in high technology and capital-intensive industries in petroleum refineries, mineral and metal products, heavy chemicals, iron and steel, and transport equipment, etc. Public enterprises in construction, trade and services have a relatively less direct public sector involvement in the production side. However, a large number of developing African countries have publicly owned agricultural development corporations but the private ownership of land still remains the dominant feature of African agriculture.

47. The overall performance of the public enterprises on a commercial measure is reflected in the overall surplus or deficit incurred. The indicator here is defined as the difference between current plus capital expenditure and revenue plus receipts of current transfers and non-government capital transfers. The statistical data reflects that the overall deficits are much larger relative to GDP in developing than in industrial countries. The size of the overall deficit of public enterprise sectors in developing Africa is striking. Particularly noticeable, the overall deficit as percentage of GDP comes lower than all developing countries and in particular those of Asia, the ratio being 3.1 per cent as compared to 3.9 per cent, 5.6 per cent, 2.5 per cent and 1.7 per cent for all developing countries, Asia, Western Hemisphere and industrial countries respectively. Another feature is that deficit of public enterprises in Africa are growing to higher limits over time due to worsening cycles in world economic activities, and undeveloped capital markets. Nonetheless, this does not, in itself, provide a proper measure to assess the performance or impact of public enterprises, as on the whole, the overall deficits for public enterprises are not undesirable per se as it may be justifiable from the social point of view to run deficits to finance investment needed to expand output.

5. THE INTERACTION OF THE PUBLIC AND PRIVATE SECTORS AT THE SECTORAL LEVELS

48. After reviewing the sectoral distribution where both sectors are operating, it is pertinent to show areas of the desired level of involvement, the appropriate mechanism and institutional set up that would ensure it and lastly the measures and policies to enforce the activities of such institutions to promote the co-ordination.

49. It is common practice that some countries delimit areas of encouragement in some specific sectors. The public sector is usually engaged in large-scale, long-term and low return type of heavy investment. Conversely, the private sector is involved in

development of small-scale and quick return activities. However, while some countries attempted to delimit the areas for private and public enterprises, a change in government could easily produce a change in the limits and thus create a state of instability and inflexibility for the private sector investment. In this context, the areas of public sector operation would be in a state of flux and sometimes unknown and uncertain.

50. Nevertheless, in specific cases delimitation of areas of encroachment are clearly defined and demarcated. These areas are specified when the public sector acts as complementary and gap-filling, cases when the public sector is pioneering in certain activities, and when it enters into partnership with private enterprises. Likewise, some areas are historically known to be confined to the activities of the private sector. Such activities do not usually require large amount of capital or highly technical skilled labour and are usually operated on a small type business employing a relatively small working force. In this sector, the private sector is predominately involved in the activities of the personal and service sector which include catering recreation and hotels, small-scale activities in manufacturing in light consumer goods such as soft drinks, beer brewing and tobacco etc., agriculture, transport and construction, and retail and wholesale trade.

51. Besides, the strong private enterprise participation in traditional activities in small-scale business, the private capital is also heavily employed in large-scale operation in import-substitution and export-oriented industries. At this conjuncture, the scale of its activities in these areas comes right into direct and indirect conflict and competition with public enterprises, with each possessing a system with the basic object of survival by strengthening its competitive stance. Nonetheless, the State is also equally concerned with the survival and development of large and private enterprises and is thus apt to provide rules and institutions that would minimize such a conflict between the private interest and the national interest. Therefore, the objective of the government in many developing countries is to set up an organ that would be able to improve the competitive strength of the national economy in co-operation with the private sector, or use its own resources to manipulate the private sector so that it pursued national ends.

52. The creation of such agencies is of utmost importance for a faster well planned and co-ordinated growth. The main objective of these development agencies is to co-ordinate the activities of the two sectors so that they can be mutually advantageous and complementary to each other. The development agencies, on the main, are used as instruments with a positive role to assist the participation of the private sector in the overall economic development of the country. These agencies in developing countries

usually take the form of a regional, provincial or State character. The typical nature of these agencies is that they are client oriented for development and not profit-making bodies. Other supporting bodies of this process of integration of the private sector are the chamber of commerce, industrial associations, and trade unions, etc.

53. The functions of the development agencies are numerous. In many instances, the development agencies act as initiator, planner, undertaker, controller and promoter of public enterprises, catalyst and partner to private sector, and tools to assist governments in regulating the national economy by reorganization and rationalization, etc. In this sphere, the national agencies are expected to engage wholly or partly in establishment of key enterprises, and in the reorganization of the commercial and industrial sectors through financial administratives and incentives to affect rearrangements, mergers, sub-divisions and holdings, etc.

54. The role of planning agencies in promoting economic development is of crucial importance. The development agencies are required, in this respect, to find, assess and evaluate profitable ventures and opportunities to be undertaken by the private sector. In many instances, the public sector, through its specialized agencies, renders special services in the form of commodity market research, feasibility studies, and promotion of consultancy services. Such practices are of significant importance in avoiding attendant problems relating to attainment of sufficient capacity utilization, and application of appropriate technologies. Moreover, this has to be supplemented by undertaking simultaneously complementary projects and activities so as to bring them into production at the same time; thus giving sufficient guarantee that each venture would be profitable. Here, the development organ has an important role to play in managing demand and in delimiting areas of economic operation either through inducing co-ordinated action by private enterpreneurs, or by co-operating with them.

55. In addition, the development agencies are specialized agencies to ensure the efficient use of resources in the national interest. In this venue, they are vested with functions to safeguard against transfer of inappropriate and backward technology, lack of capital market, inadequate research, restrictive practices, lack of initiative and indigenous entrepreneurial class, and unhealthy competition. This is so, so much as these agencies are the organs required to apply and interprete the policies laid down by the government to promote public and private enterprises, to improve the national efficiency of the private sector and to guide it to conform with the national economic interest. In this context, the agencies are usually given wider responsibility to function fully and device sound and fully co-ordinated policies and practices.

56. The policies set for the promotion of economic activities vary with their national importance. In developing countries, the government policy usually aim to have a strong and viable private sector that is conscious of and dedicated to the economic and social advancement of the country. These policies are, on the main, directed to ensure that the private sector would produce adequate supply of goods and services at reasonable prices for home markets and exports. To attain this, a whole set of inducement and penalities were provided through its development agencies. Most of these penalties and inducements are of a general type, usually through monetary and fiscal policies.

57. Assistance is given to the private sector in various forms and at different points due to various reasons. Such reasons include national importance, rescue from financial collapse, promotion of certain line of activities in the van of technological advance, development of infant industries, and promotion of certain lines of import-substitution and export promotion industries. The forms of such assistance varies from one line of activity to another and take the form of protective tariffs, tax preferences, government purchasing policy and monopoly arrangements, conducive and concessionary loans, favourable credit policy and subsidies, interest subsidies for risky investment, and equity participation. Government policy in this regard constitutes an important element aiming to increase the security of investment and to create the necessary climate for its efficient utilization by ensuring the availability of labour, skills, adequate capital surpluses, protection of the industry's markets, and provisions of advisory services, marketing information and training. Many developing African countries have been continuously changing their investment codes and incentive packages in an effort to orient the development of the private sector towards profitable ventures that is consistent with development plans, national priorities and factor endowment. On the other hand, penalties are provided for by anti-trust and anti-monopoly legislation even if it leads to production units that are too small. Restrictions on monopolistic practices include price controls, quality norms and production quotas.

58. These policies were, on the main, intended to encourage and develop the private sector to be enterprising and risk-taking. In many countries, the private sector presses on the public sector to undertake activities which promote the infrastructural capacity and risky undertakings so as to expand and create new opportunities for the private sector sphere of operation. In some cases, the government in an effort to align the activities of the private sector, resort to establishing of "model" business undertakings with specially good employment policies, etc. In very rare and few instances of developing countries with capitalist philosophy, the public sector is tempted to sell to the private sector successful undertakings that it has promoted in order to secure additional funds for undertaking further enterprises to promote very quickly because of its strong position in mobilizing resources and more accessibility to capital markets.

59. The governments of developing countries has resorted to many policy measures to secure the effective co-ordination of the private and public sector in the process of economic development planning. Sectoral plans for developing the private sector were devised and consistently integrated with the national development plan. The instruments of policy to make the private sector investment plans to conform with the national development plan are generally through industrial capacity licencing and protection against foreign competition through a system of import quotas.

60. While the licencing has to ensure that no more capacity than targeted in the plan was established in any industry and to prevent concentration of economic power in a large concern, the import quotas would necessarily reinforced the industrial licencing by discouraging imports in areas where domestic production capacity has been adequately created. Moreover, this has to be strengthened by regulation of foreign exchange and exchange controls to ensure regular supplies of foreign exchange from domestic exports to finance the sectoral development plans.

61. In the sphere of co-ordination of economic activities, many developing countries adopted policies to the effect of restructuring their economies along co-operative lines. The merit of this system is seen in the pooling of the limited resources and mobilization of the savings of the private sector as well as in securing a high degree of decentralization in decision-making to avoid the conflict of interest between the private enterprises and creation of monopolistic centres, and the national interest. Within similar context, the government of some developing countries, when local entrepreneurialship lack the knowledge and ability and/or the willingness to bear the risk and to safeguard the national interest, have adopted policies of increased participation with private capital in joint ventures. However, the policy of joint ventures with parastatal was quite effective in the mobilization of private capital as it safeguard their interest by hedging against nationalization.

6. NEW CHALLENGES AND NEW ROLES

62. After highlighting the role of public and private sectors, their involvement and interaction in the process of economic development, it is pertinent here to emphasize the new roles of the two sectors in their proper perspective that would ensure the attainment of the objective set out in the general strategy of economic and social development of the African countries. This is necessary as far as new strategies were needed so that past structures of production and patterns of consumption could be replaced by a new kind of an African economy with a new self-reliant and self-generating development process. It is only natural that the Monrovia strategy and the Lagos Plan of Action were of necessity formulated to redefine the approaches to that development in Africa.

63. Naturally, the national development plans of the individual African countries, who adopted and accepted this type of strategy, should reflect the overall broad objectives and the general pattern of development envisaged in the Lagos Plan of Action. For the first time, the problems were understood, the roles assigned, and the road well mapped for effective participation along this direction. To this effect, the public sector has been assigned the central role and the means for purifying the economic system by maintaining economic stability and to fostering economic growth. It is within this sphere, that the public sector will be faced with tremendous challenges as well as with new opportunities to direct and guide the way towards the successful implementation of the goals.

64. The Lagos Plan of Action identified a variety of objectives and priorities. The fundamental guiding principles of the plan is the individual and collective self-reliance and the establishment of self-sustaining and internally located processes of development. The plan of action placed great emphasis on self-reliance as opposed to foreign aid reliance and attainment of national control over economic policy decisions. To this effect, the first challenge that the public sector has to shoulder is the broadening of the natural resource base of modern production by indegenous factor inputs and the building of intra- and inter-sectoral linkages with appropriate technology. Thus, the public sector should take and sustain initiatives in a wider range of production sphere. This would necessitate the involvement of the public sector as leader in expansion of production, manpower development, research and experimental development, the promotion of innovation, promotion of bulk procurement of supplies, market assessment, mobilizing and redeploying savings and regularization of foreign exchange earnings, etc. In this endeavour, it is clearly evident that the public sector can not resort to soft options. Therefore, a clear perception of the functions and roles of the public sector and devicing of proper sectoral plans for the effective participation of the private sector are needed in the light of the philosophy of the Monrovia strategy and the Lagos Plan of Action.

65. In the first place, the Lagos Plan of Action accorded high priority to the development of the agricultural sector with the aim of achieving food self-sufficiency in cereals, livestock and fish products. The main policy in this direction should constitute the setting-up of strategic food reserves aimed at establishing a coherent food security policy, and farming methods to secure substantial increases in food production through appropriate agrarian reform, changes in the structure of the cropping pattern, soil conservation, physical infrastructure development, intensification of the use of improved hand tools, provision of credit, marketing, storage, and appropriate income and price policies and provision of adequate incentive packages. This would,

however, involve the establishment of effective institutional set-up and mechanism as to the effective participation of the two sectors to ensure the successful, timely and systematic implementation.

66. While the active participation of the private sector in crop production is recognized, the public sector, through its machinery, is responsible to lay the basic infrastructural foundation and to provide the necessary inputs and support required for the achievement and attainment of that end. Besides, its direct involvement in the production side in large-scale farming, the public sector should play a leading role in land management, seed development, promotion of agricultural research and extension, agricultural services, the dissemination of new farming methods and techniques, the provision of marketing and credit facilities, processing storage and commodity pricing systems, expansion of irrigational schemes, land reclamation programmes and rural development planning.

67. The public sector should be fully involved in the preparation and implementation of priority policies and projects of the national food plan, as well as restructing the agricultural production pattern by appropriate diversification, increasing use of local factor inputs and by reorienting production to internal demand stimuli instead of dependence on international price signals. The opportunities for the public sector in this regard are numerous and mainly relate to opening of new areas where decolonization is deemed necessary, to pool resources and enter into new fields with the private sector in joint-ventures to ensure its effective and disciplined participation, and to enhance economic co-operation with neighbouring countries to secure markets and reasonable prices.

68. Another important challenge set forth by the Lagos Plan of Action is the creation of the conditions for self-sustaining growth and structural transformation. The Lagos Plan of Action has stipulated an integrated and articulated local resource-based development pattern with strong emphasis on the complementarity of agriculture and industry. Hence, the challenge for the public sector is immense and should, therefore, resume a new vision to bring about a structural change consistent with the local endowment in as a minimum required time as possible. Thus, the development of import substitution programmes would continue but pursued with new emphasis and direction. Employment promoting industries that take full account of the comparative advantage of cheap labour relative to capital should be given considerable attention. Development of agro-based industries with low import content should be given due emphasis in the public sector industrial programmes. Indigenous industrialization to generate sufficient incomes and employment in the rural sector should be pursued with vigor. Export-oriented industries should be encouraged in new venues that would develop local skills and reduce the import content.

69. To that aim, the public sector through its direct involvement and inducement should lay the foundation and provide the necessary basis for an industrial take-off. It should provide the conducive environment for the development of the industrial sector by developing the institutional and physical infrastructure and the provision of strategic inputs in an effort to enhance the absorptive capacity of the economy for the desired level of growth. The public sector, through its directory mechanism, should induce the private sector to the course of development of industrial projects with less reliance on imported inputs, such as projects with low capital-labour ratio, less energy and greater mobilization of local skills and resources in an effort to expand the realm of small- and medium-size industries. In addition, the public sector, on its part, should actively participate in the development of core industries that provided effective linkages, and indeed assume a leading role in risky ventures of strategic importance and advance lines of operation in metal engineering industries, and heavy chemicals, etc.

70. The pressing task of developing a healthy private sector that acts as a partner and a useful instrument for building a sound domestic industrial base, is the preoccupation of many African governments. This would require the devicing of coherent sectoral plans and investment programmes with guided action of the public sector at all levels to integrate the private sector into the process of economic development. The appropriate industrial mix would, then, require the initiation of properly planned and well administered investment codes and incentive packages and reasonable tariff oriented policies on a selective basis to benafide infant industries to maturity, and to shift the private sector preferences in this direction to meet developmental objectives. Within this context, the government, through its machinery vested in the public sector, should observe the timely attainment of the targets and objectives of the Industrial Development Decade for Africa and the Lagos Plan of Action in its short-, medium and long-term phases, which stipulate an industrial output of 1.4 per cent of world industrial production by 1990 and reach the 2 per cent mark by the year 2000.

71. Another area of challenge is the development of local technology and its adaptation to basic needs. The Lagos Plan of Action has given this concern due emphasis as it is largely linked to the rational and efficient exploration and exploitation of the natural resource base. The accelerated development of natural resources is basically dependent on technologies that suit the local and environmental conditions such as providing equipment suitable for persons with some limited technical ability in ground exploration for minerals and underground water. Thus, it is essential that the public sector should involve in natural resource prospecting

and processing. In this regard, the public sector can play a catalytic role by providing and making available simple mobile equipment, and provision of technical consultancy, other services and assistance. The public sector involvement in the dissemination and promotion of indigenous technologies would help planners to deciding on what type of technologies to be adopted, locally developed or imported as well as it helps the private sector to decide on what type of industries to be established and on what size and line of operation. The public sector would, therefore, be actively engaged in co-ordinating and harmonizing the natural resource development policies by making science and technology as accelerators, especially of agriculture and industry development.

72. As most of the poor public enterprise performance is related to their weak and ineffective management, the Lagos Plan of Action, in pursuit of its internal-oriented strategy, has expressed the need and the urgency to improve management structures and systems through development of local skills. Therefore, the public sector is confronted with the challenge of developing the requisite manpower and technical skills and to the strengthening of existing or creation of new national institution and training centres aimed at deepening local skills to develop factor inputs.

73. Another area of government assistance, in this line, is the extension and provision of training facilities to the private sector in order to develop its professional and managerial capabilities. This would, however, relief the private sector of the burden of incurring extra cost and would, thus, help in reducing the overall operational cost that would enhance their competitive stance in domestic and international markets.

74. Transport and communications infrastructures and facilities have been given due prominence by the Lagos Plan of Action which endorsed the United Nations Transport and Communication Decade in Africa. The public sector institutions serving in these areas should make full use of the opportunities offered in this programme. The activities of the sector are varied, wide and vast covering railways, air road, inland, water and sea transport and tele-communication networks. It is obvious that the prime responsibility could not be vested with one sector; but the direct involvement of both. Indeed, while the prime concern of the public sector is the provision of the basic utility services at convenient rates, the private sector will continue in new venues to contribute to a large extent especially in the provision of the support and related services, and repair and infrastructural maintenance facilities for its efficient operation and development.

75. Another area of concern is the development of trade and in particular intra-African trade and co-operation of African States in joint ventures. The public sector, in this endeavour, is expected to play a significant role in the formulation and development of marketing boards to regulate domestic trade, rationalise the direction of foreign trade and the regularization of foreign exchange earnings.

76. The Lagos Plan of Action put heavy emphasis on the development of intra-African trade and the removal of trade barriers among African countries. Besides, the actions to be taken to improve payments and allow for free mobility of resources and persons, financial incentives should be instituted for public enterprises through a more development oriented tax system and availability of credit, etc. The opportunities offered by co-operation in this context for the public sector to enlarge its scope of operations are numerous and which include the opening of external markets, setting up centres for training for further utilization of human resources, pooling of financial and other resources, exchange of information directly related to markets, arrangements such as commodity markets and product sharing system, and the strengthening of the bargaining power in matters relating to the acquisition of technology and other factor inputs from abroad. This, as well, would provide a tremendous boost to the development of the private sector to extend into new ventures and new profitable undertakings in joint-ventures with the opportunity to operate at fuller capacity and scope for expansion.

77. Besides, co-operation in the field of trade, efforts should be directed to establish joint ventures in the production and processing spheres, and the development and utilization of human resources. This is important as long as it develops the processing of natural resources and raw materials on a complementarity basis that would lead to substantial improvements in their international competitiveness and considerable reduction of foreign spheres of operation. The case in point is of special relevance for countries with similar mineral resources base but which production entails huge amount of investment beyond the capacity of individual countries.

78. Finally, to rationalize, integrate and maximize the contribution of the private sector to national development plans, it is an imperative need more than ever to establish an institutional mechanism for consultation between the government and the private sector, at all levels, to define the proper role of each sector in investment and production within the framework of the principle of comparative advantage in the allocation of tasks and responsibilities. This, however, would ensure the positive and full participation of the private sector in the process of national planning, policy formulation, and execution not on an ad hoc basis but on permanent and continuing one.

79. Such mechanism would ultimately secure and ensure that the private sector will make optimum use of the domestically available resources, promote indigenous development of factor inputs, identify and develop in a systematic manner its manpower requirements, and rationalize the transfer of technology in an effective and productive manner. However, the major challenge constitutes the change of attitudes for a conducive developmental environment. Indeed, there is an imperative need for private investors to look beyond their immediate interest and have a long-term set of socially oriented objectives.

80. After all, the issue in principle is not one of public or private but rather how the two sectors should be profitably integrated in a consistent and systematic complementary fashion to affect rapid structural transformation in the context of individual and collective self-reliance and self-sustainment as stipulated in the Lagos Plan of Action and the Final Act of Lagos.